newsquawk

PREVIEW: US Nonfarm Payrolls (July) to be released on August 4th at 13:30BST/08:30EDT

The rate of payroll growth is expected to slow in July, while measures of wage growth are seen cooling further. Analyst whisper numbers and gauges of the US labour market strength are supportive of a decent reading: ADP's gauge of payrolls surprised to the upside once again, though many analysts dismiss the data series as a reliable forecaster for the NFP data; weekly claims data has trended lower relative to the June survey week; PMI surveys allude to healthy labour market conditions, and consumers have confidence in the outlook for the labour market. And tracking estimates are also above what the consensus predicts. Ahead, payroll additions are expected to ease further, but Fedwatchers still suggest that a print in July that is in line with the consensus would still likely keep the prospect of another FOMC rate rise in play.

EXPECTATIONS: The street expects 200k nonfarm payrolls to be added to the US economy in July, slightly cooling from the 209k added in June. The jobless rate is expected to remain unchanged at 3.6% (note: the FOMC's latest projections anticipate the jobless rate will rise to 4.1% by the end of this year, before ticking up to 4.5% next year). On the wage measures, the consensus expects a cooling to 4.2% Y/Y from 4.4%, with the monthly print expected at +0.3% M/M (prev. +0.4%); workweek hours are expected to remain at 34.4hrs. According to whispers, the bias could be to the upside; traders cite a Bloomberg report which was tracking payrolls growth at 364k this month, and sees the jobless rate falling to 3.5%.

ADP DATA: ADP's data surprised to the upside, once again, reporting 324k private payrolls were added in July, blitzing through the consensus view of 189k (the range of forecasts 140-300k); the prior data for June was revised lower to 455k from an initially stated 497k. The wages metrics also cooled sharply again, taking the annual rate for Job Stayers to 6.2% Y/Y (from 6.4%), and for Job Changers to 10.2% from 11.2%. Analysts continue to be critical of the ADP's ability to forecast the BLS payrolls data. Pantheon Macroeconomics, a very vocal critic, said that "since its relaunch with new methodology last August, ADP has been both unforecastable and deeply unreliable as an indicator of the official first estimate of private payrolls each month," adding that the data "has no implications for our July forecast."

WEEKLY CLAIMS: Weekly initial and continuing jobless claims data has eased in the July survey week relative to the June survey window; initial jobless claims were at 228k vs 265k (with the moving average at 238k vs 265k), while continuing claims was 1.69mln vs 1.73mln (with the average moving lower to 1.72mln from 1.76mln).

BUSINESS SURVEYS: S&P Global's PMI Data is encouraging in its outlook for the labour market; its flash release for July said firms expanded workforce numbers, though the rate of job creation was only marginal, however, and the weakest since January. "Some manufacturing companies noted that the solid rise in payrolls was due to greater ease of hiring, with some also mentioning an improvement in employee retention and improved confidence in the outlook," it said, "in contrast, services firms reported the slowest rise in employment for six months in July, continuing to highlight challenges retaining and attracting staff due to rising wage costs."

CONSUMER CONFIDENCE: The Conference Board reported that Consumer Confidence improved in July, with assessments of the present situation rising on brighter views of employment conditions, where the spread between consumers saying jobs are 'plentiful' versus 'hard to get' widened further. "This likely reflects upbeat feelings about a labour market that continues to outperform," CB said. Additionally, consumers' assessment about the short-term labour market outlook was also more favourable, with slightly more consumers expecting more jobs to be available, while slightly fewer anticipate less jobs.

JOLTs: It is also worth noting that the JOLTs data for June (that is the latest data, but we are due to get the July jobs data from the BLS) reported job openings of 9.582mln, beneath the expected 9.61mln, and 9.824mln prior. Wells Fargo said that "since the Fed began tightening policy in March 2022, job openings have fallen 20% while the unemployment rate has trended sideways," adding that "this marks an encouraging step towards inflation subsiding without a recession, but with price growth still elevated and a pullback in demand for workers ongoing, a "soft landing" remains far from assured."

POLICY IMPLICATIONS: SGH Macro's Fedwatcher Tim Duy suggests that if the data is in line with market expectations, and in the context of a GDP growth rate running above 2%, it keeps the prospect of a FOMC rate hike on the table at the October and/or November meetings, and adds that anything below 200k will give the Fed scope to continue to pause on rate changes. Duy says that July's data could be elevated due to seasonal effects, but payroll growth of around 300k or more over the next two reports would probably be consistent with unemployment below 3.5% by the time of the September meeting. "That combined with a Q3 growth outlook of more than 2% would probably put a September rate hike into play," SGH writes, "that’s arguably an extreme situation (or maybe not if the economy is rebounding from the “recession” of the 4Q21 and 1Q22 and the Fed’s series of rate hikes?), and the Fed would hate it."